

Message Text

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E. O. 11652: N/A
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SUBJ: QUEBEC PROVINCE COMPLETES FIRST PUBLIC DEBT ISSUE SINCE PQ
ELECTION

1. BEGIN SUMMARY: PROVINCE OF QUEBEC HAS COMPLETED FIRST
PUBLIC BOND ISSUE SINCE ELECTION OF PARTI QUEBECOIS NOVEMBER
15. ISSUE HAS BEEN AWAITED AS TEST OF MARKET REACTION TO PQ
GOVERNMENT, BUT CIRCUMSTANCES SURROUNDING ISSUE MAKE ANY SUCH
JUDGMENT DIFFICULT. CANVASSING PRIOR TO ISSUE WAS EXTENSIVE;
TERMS ARE FAVORABLE WITH ATTRACTIVE INTEREST RATE AND FIVE
YEAR MATURITY WITH EXTENSION FEATURE; AND LARGE PROPORTION OF
ISSUE WAS PLACED WITH INSTITUTIONS OVER WHICH PROVINCIAL GO-
VERNMENT HAS SOME INFLUENCE. BUT AT SAME TIME, ISSUE WAS
LARGER, DOLS 175 MILLION, THAN USUAL PROVINCIAL ISSUES, THEREBY
REPRESENTING SOME TEST OF MARKET, AND UNDERWRITERS REPORT THEY
COULD HAVE SOLD MORE OF ISSUE THAN THEY WERE GIVEN.
WHAT ISSUE CLEARLY DID NOT ANSWER WAS QUESTION OVER
QUEBEC'S ABILITY TO RAISE MONEY IN LONG TERM PUBLIC MARKET.
END SUMMARY.

2. PROVINCE OF QUEBEC HAS COMPLETED ITS FIRST PUBLIC DEBT OFFER-
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ING SINCE ELECTION OF PARTI QUEBECOIS NOVEMBER 15. ISSUE TOTALLED
DOLS 175 MILLION, WITH UNUSUAL FEATURE PROVIDING FOR TWO EXTENSION
OPTIONS. ISSUE CARRIES 9.25 COUPON TO MARCH 22, 1982, AND IS
EXTENDIBLE INTO EITHER A 9.25 O/O ISSUE DUE IN 1987, OR A 9.75 O/O
ISSUE DUE IN 1997. IF EXTENSION OPTION TO 1997 IS EXERCISED,
AVERAGE YIELD TO MATURITY WOULD BE 9.53 O/O.

3. FIRST PUBLIC OFFERING OF PROVINCIAL BONDS HAS BEEN AWAITED WITH INTEREST AS TEST OF PROVINCE'S ABILITY TO RAISE FUNDS WITHIN CANADA, FOLLOWING ELECTION OF PARTI QUEBECOIS. AS RESULT, GOVERNMENT WISHED TO ASSURE SUCCESS OF ISSUE, AND GOVERNMENT AND UNDERWRITERS TOOK SEVERAL MEASURES TO ENHANCE ACCEPTABILITY OF NEW ISSUE. CONSULTATIONS PRECEDING ISSUE WERE EXTENSIVE IN ORDER OBTAIN BEST READING POSSIBLE OF WHAT MARKET WOULD ACCEPT, AND ISSUE WAS TAILORED TO MEET THESE SPECIFICATIONS. THUS, INVESTORS LARGELY GOT WHAT THEY WANTED IN WAY OF TERMS. FOR FIVE YEAR TERM, YIELD WAS 10 TO 15 BASIS POINTS BETTER THAN OUTSTANDING QUEBEC ISSUES OF COMPARABLE MATURITY, ABOUT 100 BASIS POINTS ABOVE COMPARABLE PROVINCE OF ONTARIO ISSUE, AND ABOUT 145 BASIS POINTS ABOVE GOVERNMENT OF CANADA BONDS OF SIMILAR TERM.

4. FIVE YEAR TERM FOR BONDS WAS DESIGNED TO MINIMIZE TO EXTENT POSSIBLE FINANCIAL RISKS ATTENDING POLITICAL SITUATION IN QUEBEC, AS PURCHASERS WHO WERE CONSULTED IN ADVANCE REPORTEDLY INDICATED THAT THEY WERE NOT INTERESTED IN COMMITTING THEMSELVES FOR LONGER PERIOD. BUT AT SAME TIME, INVESTORS WERE GIVEN OPPORTUNITY TO REASSESS SITUATION IN 1982. BELIEF SEEMS TO BE THAT EVEN IN EVENT OF SUCCESSFUL REFERENDUM, SPEARATION WILL NOT HAVE OCCURRED BY 1982.

5. PRESS REPORTS INDICATE THAT ISSUE WAS TO BE DISTRIBUTED WITH DOLS 100 MILLION GOING TO CHARTER BANKS, DOLS 50 MILLION TO INSTITUTIONS, AND DOLS 25 MILLION TO GENERAL PUBLIC. WHILE FINAL DISPOSITION NOT YET KNOWN, CONTACTS IN INVESTMENT COMMUNITY THINK ISSUE WENT PRETTY MUCH AS PLANNED. SOME REPORTS IN PRESS INDICATED THAT UNDERWRITERS AND GOVERNMENT HOPED TO PLACE AS MUCH AS HALF OF UNCLASSIFIED

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ISSUE OUTSIDE OF PROVINCE, WHICH COULD BE INTERPRETED AS SIGN OF CONFIDENCE IN QUEBEC. PROBLEM HERE IS ONE OF DEFINITION, I.E. DOES ONE CONSIDER PURCHASES OF ROYAL BANK AND BANK OF MONTREAL, FOR EXAMPLE, TO BE ALLOCABLE IN SOME PROPORTION TO EXTENT OF OPERATIONS IN OTHER PROVINCES OF CANADA? LEAVING BANKS ASIDE, WE WERE TOLD BY ONE UNDERWRITER THAT FROM 30-40 PERCENT OF INSTITUTIONAL SHARE (DOLS 50 MILLION) AND 20 O/O OF PUBLIC SHARE (DOLS 25 MILLION) MAY HAVE BEEN PLACED OUTSIDE QUEBEC. NEVERTHELESS, THERE IS FEELING TO SOME EXTENT THAT PROVINCIAL GOVERNMENT IS HUNTING IN ITS OWN CHASSE GARDEE, WHERE MORAL SUASION, PLIED ON INSURANCE COMPANIES AND BANKS WITH OPERATIONS IN QUEBEC, CAN SOMETIMES BE AS EFFECTIVE AS A FEW EXTRA BASIS POINTS. IN CASE OF BANKS, IT IS LIKELY THAT OPERATION WAS AT LEAST PARTIALLY A REFUNDING EXERCISE, ROLLING OVER DEMAND LOANS TO SHORT TERM MATURITIES, AS BANKS HAVE BEEN LENDING SHORT TERM TO PROVINCIAL GOVERNMENT.

6. IN ADDITION TO ITS SIZE, WHICH WAS LARGER THAN NORMAL PROVINCIAL ISSUE, CURRENT FINANCING EXERCISE WAS UNUSUAL IN THAT

CAISSE DE DEPOT DID NOT PARTICIPATE. ABSENCE OF CAISSE FROM LIST OF SUBSCRIBERS WAS EXPLAINED BY FACT THAT CAISSE NORMALLY BUYS LONG TERM ISSUES. BUT EVEN WITH CURRENT BOND ISSUE OUT OF WAY, PROVINCIAL GOVERNMENT WILL STILL HAVE ABOUT DOLS 150 MILLION TO FINANCE TO COVER CURRENT FISCAL YEAR (ENDS MARCH 31) REQUIREMENTS. A GOOD BET WOULD THEREFORE BE THAT NEXT PLACEMENT WOULD PROBABLY BE FOR LONGER TERM, WITH BULK GOING TO CAISSE DE DEPOT, BACKED UP BY CAISSE POPULAIRE AND HYDRO-QUEBEC PENSION FUND, AND POSSIBLY ADDITIONAL SHORT TERM ISSUES PLACED WITH BANKS AND GENERAL PUBLIC.

7. ALTERNATIVELY, GOVERNMENT COULD ELECT TO WAIT, DRAWING ON LINES OF CREDIT FROM BANKS UNTIL SAVINGS BOND SALES AND TAX RECEIPTS INCREASE REVENUES IN APRIL. A FISCALLY CONSERVATIVE BUDGET, SHOULD THAT BE IN STORE, COULD ALSO EASE PROVINCE'S ACCESS TO FINANCIAL MARKETS LATER IN YEAR.

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